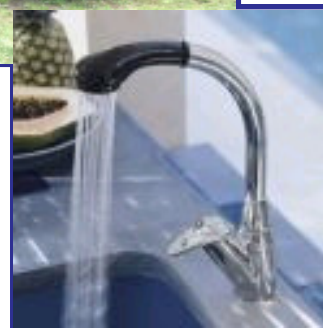
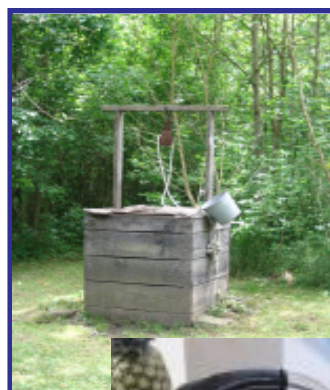




Committed to the future of rural communities.

Kentucky 2005 Annual Report



Changing Times

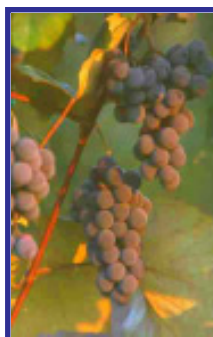


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**COMMENTS BY
SECRETARY OF AGRICULTURE
MIKE JOHANNIS**

On May 11, 2005, USDA Rural Development celebrated 70 years of service to America. Much has changed since 1935 when the crisis was the Depression, our mission was agricultural stabilization, and the cutting edge was rural electrification. Today, rural America is dynamic and diversified; the cutting edge is broadband and renewable energy. Our Rural Development mission is increasing economic opportunity and improving the quality of life in rural America. But from 1935 through today, one thing has remained constant: the commitment of the men and women of USDA Rural Development to the future of rural communities.



That commitment was demonstrated in dramatic form by the response of Rural Development to the unprecedented series of hurricanes that slammed into the Gulf Coast in the late summer and autumn of 2005. Hurricane Katrina -- the most destructive storm ever to hit the United States in terms of property damage, though fortunately not in loss of life -- was followed in rapid succession by Rita and Wilma. The damage was immense; the loss of life, heavy. Outside of New Orleans and Biloxi, most of the devastated areas were rural.

Rural Development personnel -- including many who had lost their own homes -- worked around the clock to staff recovery centers and provide shelter. They worked with our Federal, State, local and non-profit partners to repair water, telecommunications, and electrical systems. By mid November, more than 9,700 evacuees had been housed in Rural Development-funded units in 42 States. And in the months and years ahead, Rural Development will play an important role in rebuilding housing, community facilities, and infrastructure throughout the disaster area.

This is merely one example, although a dramatic one, of the vital work Rural Development is doing each and every day across rural America. Since the beginning of the Bush Administration, Rural Development has invested more than \$63 billion and created or saved more than 1.1 million jobs in rural communities. We have assisted almost a quarter of a million rural families to achieve the dream of homeownership and invested almost \$5 billion in our business programs alone.

The future holds challenges, but it also holds great promise. As you plan for the future, USDA Rural Development is here to support you and your community. We are locally based; as your neighbors, our employees are rooted in your communities and share your values and concerns, just as we have since 1935. We are proud of Rural Development's record of achievement throughout the past 70 years and we look forward to working with you to bring increased opportunities to Kentucky as we work together to build an even stronger rural America.

**COMMENTS BY
AGRICULTURE
UNDER SECRETARY THOMAS DORR**

The face of rural America continues to change, and USDA Rural Development is changing with it. No longer the “lender of last resort,” we are rural America’s investment bank, a venture capital entity that creates jobs, promotes business development, and provides community facilities and affordable housing. Our goal is to build viable and sustainable rural communities.

In each of the last five years, the Bush Administration has invested about \$13 billion in rural America. Rural Development has provided housing, water and sewer funds, hundreds of millions of dollars in business loan guarantees, telecommunications and electricity loans and grants. Public safety buildings, rescue equipment, libraries, town halls and access to broadband have all been made possible through the efforts of Rural Development.



One of the biggest challenges facing our nation is the need for renewable energy. In our ongoing effort to promote development of new energy sources, USDA Rural Development in 2005 funded 154 renewable energy grants and two renewable energy loans totaling \$32.3 million. Additionally, through the Value Added Producer Grant program, Rural Development provided \$2.8 million for 30 more energy related projects. From wood fired generating plants to wind turbines, biofuel production and anaerobic digesters, USDA Rural Development is financing new sources of renewable energy while offering farmers and ranchers a potential new source of income.

At Rural Development we are working to ensure that all Americans have access to the technological revolution sweeping the nation. Imagine that in 2005, Rural Development made a loan to an isolated area in Michigan that will provide 309 residential customers, 18 businesses and 290 gas well subscribers with telecommunications services for the first time and imagine that the isolated town of Hughes, Alaska will become an Internet “hot spot” thanks to new service funded through a Rural Development grant.

What makes all this happen are the USDA Rural Development employees. The incredible job our employees did to provide aid to the victims of Hurricanes Katrina, Rita and Wilma was amazing. Working with our Federal, State and local partners, Rural Development found housing for thousands of evacuees, staffed over 80 recovery centers, handled thousands of calls and met face to face with thousands of victims. I’m proud of the job our employees do every day. They’re highly skilled, dedicated, and truly “Committed to the Future of Rural Communities.”

COMMENTS BY
STATE DIRECTOR KENNETH SLONE

Times are changing

USDA Rural Development employees in Kentucky are utilizing every tool possible to assist rural Kentuckians in achieving a better way of life.

We are reaching out to our rural communities to install public water and wastewater systems, eliminate health and safety hazards in homes, move residents into houses or apartments they can call "home," purchase up-to-date public safety and service equipment, and establish or retain jobs in rural areas—bridging the way to a better future for all rural Kentucky citizens.



Rural Development is a strong force in Kentucky. Our employees have worked long and hard to provide financial and technical assistance throughout the Commonwealth.

During Fiscal Year 2005, Rural Development invested \$598,995,869 in rural Kentucky communities:

- 78,096 Water and Wastewater users benefited from new, expanded or renovated systems
- 166,131 residents benefited from more efficient health, public safety and public services
- 2,748 families either purchased or improved their existing house
- 6,368 families received rental housing assistance
- 1,506 jobs were created or saved

These numbers do not reflect the millions of leveraged funds obtained from our outstanding partners. With their assistance, and with the support of our Congressional delegation, we are a major force within the changing times of rural Kentucky and rural America.

Ken

Committed to the Future of Rural Communities

COMMUNITY PROGRAMS

Community Programs (CP) serves a multi-function by providing infrastructure assistance to rural areas for electricity, water, wastewater, telecommunications, and essential community facilities. CP plays a critical leadership role in lending and technical guidance for rural utilities industries across the nation. The **Distance Learning and Telemedicine** program, which serves to meet the educational and health needs of rural communities, is also administered through Community Programs nationwide. In Kentucky, CP is also responsible for administering **Community Facilities** loans, grants, and loan guarantees. Additionally, through agreements with the **Appalachian Regional Commission** (ARC) and the **Delta Regional Authority** (DRA), Community Programs administers ARC and DRA grants processed under the authorities provided in **Water and Environmental** (WEP) and Housing Program regulations.

Many areas in Kentucky experienced dramatic changes in population and income during the ten years between the 1990 and 2000 Census. These changes have impacted applicants for funding through USDA Rural Development's Community Programs and Housing Programs when determining their eligibility for loan and grant assistance.

Water and Environmental Programs (WEP)

One of the projects awarded this past Fiscal Year was to the Letcher County Water & Sewer District located in Whitesburg, Kentucky. According to the 2000 Census, only 30% of the households in Letcher County, one of Kentucky's persistent poverty counties, are served with public water. Persistent poverty counties are defined as those where 20% or more of the population has lived in poverty over the last 30 years, as



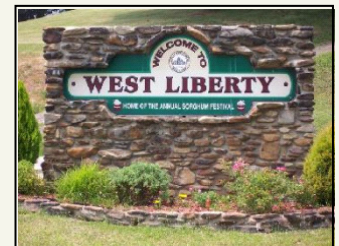
measured by each of the last four census polls of 1970, 1980, 1990 and 2000. Rural Development approved a \$1,000,000 loan and a \$800,000 grant to expand the Water District's service area to benefit an additional 665 new customers in the Sandlick, Camp Branch, KY 7 and Little Dry Fork areas of rural Letcher County. The rural citizens in those areas were dependent on unreliable groundwater as their source of water, which in many instances was polluted and unsuitable for drinking. Several years of subsurface and strip coal mining had seriously depleted or contaminated the groundwater and posed a potential and significant health threat.



USDA Rural Development State Director Kenneth Slone presented the \$1.8 million check to Letcher County Judge Executive Carroll A. Smith and Chairman of the Water District Donnie Profit

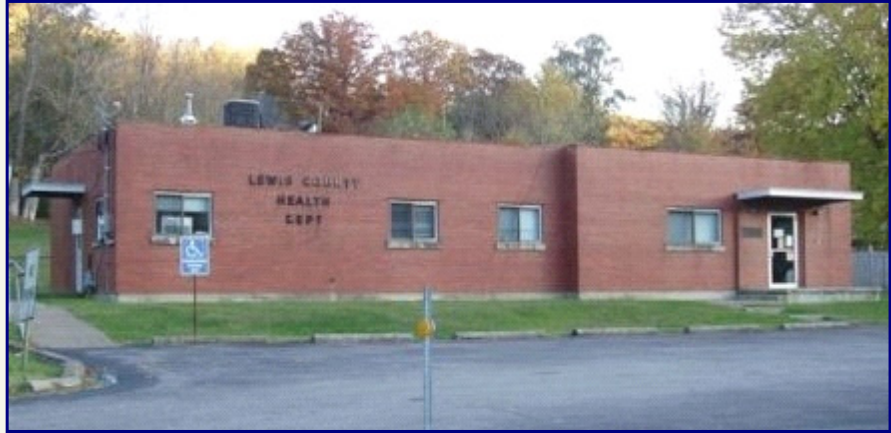
Earth Day this past fiscal year was celebrated in the City of West Liberty, located on the Licking River in rural Morgan County in the hills of Eastern Kentucky. West Liberty is the seat of Morgan County, which is one of Kentucky's 44 persistent poverty counties and lies in the eastern coal field region of the State. (An interesting side note -- although not actually west of Liberty, West Liberty was meant to complement the Pike County seat, originally slated to be called Liberty but later named Pikeville. Hence, West Liberty.)

The City applied for financial assistance from Rural Development and other federal agencies to fund a \$4.3 Million project to increase the capacity of their wastewater treatment plant and make improvements to the collection system. Since the construction of the plant in the early 1990's, the City has experienced a steady growth in population and a rapid increase in the number of inmates housed at the Eastern Kentucky Correctional Complex (EKCC), located at West Liberty. The treatment plant had reached its capacity much earlier than anticipated and was in danger of violating acceptable discharge levels and damaging the water quality in Long Branch and the Licking River, which serves as a water supply for the City. Rural Development awarded an \$801,000 Water and Waste loan and a \$500,000 Water and Waste grant to the City, which, along with a \$1,000,000 grant from CDBG and a \$2,000,000 Environmental Protection Agency (EPA) grant, allowed the City to make the necessary improvements to benefit their 635 existing customers, including the correctional facility with its 1,600 inmate population.



Community Facilities (C F)

One Community Facilities project awarded this past Fiscal Year was to the Lewis County Public Health Taxing District on behalf of the Lewis County Health Department. The existing County health department building, located in Vanceburg, Kentucky, had outgrown its capacity for storing medicines and files and needed major physical repairs. The facility was unable to meet the privacy and security requirements to maintain HIPAA (Health Insurance Portability and Accountability Act) compliance and the electrical system was inadequate to support their computer systems and laboratory equipment. The project involved the construction of a new 6,500 square foot facility, as well as the purchase of equipment and furnishings, to provide better access and services to the citizens of Vanceburg and Lewis County. The Health Department, which serves the rural population of approximately 14,092, will be able to more efficiently administer their existing programs such as Women and Infant Children (WIC), Child Wellcare, and Family Planning, as well as immunizations and blood screenings, for the low-to-moderate income residents of Vanceburg and Lewis County.



First Responders Initiative

Seventeen communities and rural areas in Kentucky received funds under the First Responder Initiative this past fiscal year. The First Responder Initiative places special emphasis on emergency responder efforts in our nation's rural communities. Rural Development is keenly aware of the job performed by our nation's emergency response providers and of the continued concerns regarding preparedness levels in rural America in light of the September 11, 2001, tragedy. During Fiscal Year 2005, we provided funding for twelve police cruisers, four fire trucks, and two ambulances, and provided financial assistance to improve or expand two health departments/clinics and two hospitals. These First Responder-type borrowers would be prominent in the event of a first response emergency situation in Kentucky's rural communities. This past Fiscal Year, Rural Development awarded a \$19,000 Community Facilities grant to the City of Fleming-Neon to purchase a fully-equipped police interceptor vehicle for the City Police Department. Fleming-Neon is a small community with a population of approximately 840, located in northeast Letcher County, one of Kentucky's persistent poverty counties. Letcher County lies in the eastern coal field region of Kentucky and its history has long been steeped in coal mining -- several of its towns, including Jenkins, Fleming, and McRoberts, began as mining camps. Interestingly, Neon was originally established as a trading center to serve nearby coal towns, one of which was Fleming -- the two towns merged in 1978. The new police car will allow the City to provide adequate police protection to the citizens of Fleming-Neon, as well as surrounding areas in rural Letcher County, including Jenkins, McRoberts, and other smaller communities.



Faith-Based and Community Initiatives

President Bush strongly believes that all groups -- faith-based or secular, large or small -- should compete on a level playing field, so long as they obey all legal requirements. One of his first acts as President was to create the White House Office of Faith-Based and Community Initiatives to lead "a determined attack on need" by strengthening and expanding the role of faith-based and community organizations in addressing the nation's social problems. President Bush stated "the paramount goal is compassionate results, and private and charitable groups, including religious ones, should have the fullest opportunity permitted by law to compete on a level playing field, so long as they achieve valid public purposes." Kentucky Rural Development employees continue to support this Presidential Initiative and include Faith-Based and Community-Based contacts in their outreach plans.

P . R . I . D . E .

The **P**ersonal **R**esponsibility **I**n a **D**esirable **E**nvironment (PRIDE) Initiative was launched in 1997 by Congressman Hal Rogers' as a means to instill and rekindle a sense of pride and community in an area covering 38 counties in southern and eastern Kentucky. The concept of PRIDE is to work together as a region, since pollution respects no boundaries, and ask every citizen to become involved in this effort to help



clean up Kentucky. Rural Development administers certain wastewater construction projects in the area, which, along with the efforts of other federal, state and local government entities, contributes toward PRIDE's goal to clean up the region's waterways, improve surface and ground water quality, and end illegal trash dumps, as well as promote and instill environmental awareness in the mainly rural populace of the region.

The City of Hyden celebrated improvements to its sewer system by releasing 2,000 channel catfish fish into the Middle Fork of the Kentucky River.

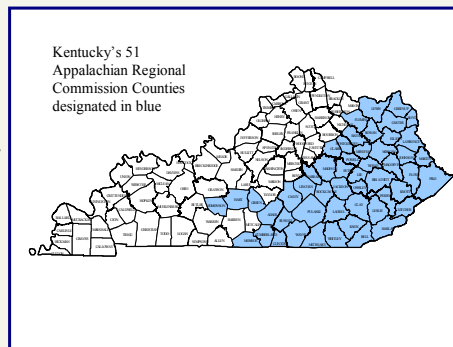


Appalachian Regional Commission

The Appalachian Regional Commission (ARC) was established by Congress in 1965 and is composed of the 13 Appalachian states and a federal co-chairman appointed by the President. Rural Development, as one of its federal partners, administers these ARC grant funds. The Commission funds projects such as education and workforce training programs, highway construction, water and sewer system construction, leadership development programs, small business start-ups and expansions, and development of health-care resources.

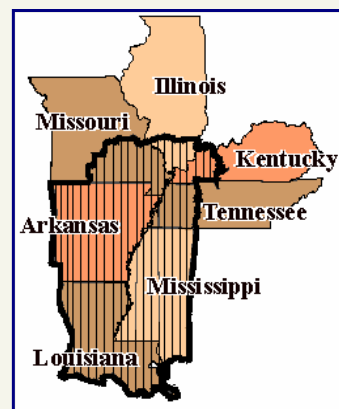
Kentucky has 51 counties, primarily in the eastern portion of the State, which are designated as ARC counties.

The Governor's Office selects the ARC grant recipients each year. If the project involves construction, Rural Development agrees to administer the grant award. During FY 2005, Kentucky administered \$2,437,500 in ARC grant funds for the expansion or improvement of 8 water and waste disposal systems in rural Kentucky.



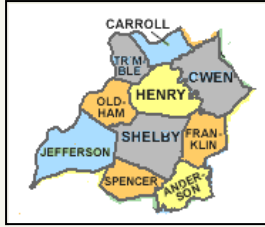
Delta Regional Authority (DRA)

In July 1998 the Secretary of Agriculture announced a new partnership with nine other federal agencies to provide economic assistance to seven states located in the Mississippi Delta region of the United States. This region includes all of Mississippi, Louisiana and Arkansas and portions of Tennessee, Missouri, Illinois and Kentucky, and has historically been one of the most economically disadvantaged areas of the country. There are 21 counties in Kentucky encompassing the Mississippi Delta Region. A Memorandum of Agreement between the Lower Mississippi Delta Development Commission and Rural Development has been executed for project administration.



Electric and Telecommunications

USDA Rural Development also administers funds for the Electric Programs. One such award was to Shelby Energy Cooperative, Inc., headquartered in Shelbyville, Kentucky. Shelby Energy Coop received a \$16,808,000 loan to build 170 miles of new distribution lines, which provided electric service to 2,000 new consumers, and to upgrade 95 miles of existing distribution lines and make other system improvements. Shelby Energy Coop serves over 14,000 customers in Anderson, Carroll, Franklin, Henry, Jefferson, Oldham, Owen, Shelby, Spencer, and Trimble Counties.



George Busey, Chairman of Shelby Energy Cooperative Inc., received the \$16.8 million check from Area Director Gene Floyd.

The Rural Telephone Bank was established in 1971 under the Rural Electrification Administration (REA) to act as a source of supplemental financing for eligible telecommunications companies and cooperatives. USDA Rural Development became the successor to REA when that Agency was abolished in 1994. With financial assistance from the Rural Telephone Bank through Rural Development, rural telecommunications companies are able to obtain financing for the improvement and expansion of telecommunications service to our Nation's rural areas. In Fiscal Year 2005, funds totaling \$63,636,400 were awarded to three Kentucky rural telephone cooperatives to serve our rural communities. This past Fiscal Year, a \$8,791,400 loan was awarded to the Ballard Rural Telephone Cooperative Corporation, headquartered in LaCenter, Kentucky, which serves all of Ballard and west McCracken Counties.



Distance Learning and Telemedicine (DLT) Loan and Grant Program

The Distance Learning and Telemedicine (DLT) loan and grant program provides financial assistance to meet the educational and health care needs of rural America. It is a program about rural America, for rural America, and delivered to rural America. The DLT program enables citizens of the most isolated communities to have access to the same education and specialized medical technology as the citizens in urban and suburban cities.

HOUSING PROGRAMS

Single Family Housing Programs

Direct Subsidized Homeownership Loans are processed through 19 local offices to very low and low income families in rural areas to finance new and existing homes. Homeownership Loans may be used to buy, build, improve, repair, or rehabilitate rural homes and related facilities and to provide adequate water and waste disposal systems.

Guaranteed -

Homeownership Loans are made available by approved lenders to moderate income applicants not exceeding 115% of the US Median Income for the county where the property is located. Guaranteed Loans cover 100% of the cost and there is no requirement for a down payment or private mortgage insurance.

504 Loans and Grants are used to enable very low-income homeowners to remove health and safety hazards, make needed repairs, and provide accessibility for family members with disabilities. Grants are available to applicants, 62 years of age and older, who do not have repayment ability for a loan. **Self-Help Grants** are made to nonprofit entities to coordinate the construction of new homes by applicants who provide a substantial portion of the labor. The "sweat equity" contribution reduces the total cost of purchasing a home – allowing many people to purchase houses that otherwise would have been out of reach.

Technical Assistance

Grants are made to nonprofit entities for homeownership education and financial counseling.



Direct Subsidized Homeownership Loans—Daniella Mendoza moved to Kentucky in search of a new beginning for herself and her three children after the death of her husband, who was in the military. Ms. Mendoza is hearing impaired, which, coupled with her East Indian and Spanish heritage, created a unique communications challenge. With the assistance of an understanding contractor and a Direct Homeownership Loan from USDA Rural Development, Ms. Mendoza became the very proud owner of a house that she and her family can call home. For everyone involved, this was a very satisfying group-effort to make Ms. Mendoza's dream of homeownership a reality.

Guaranteed Homeownership Loans -- After serving in the military for six years, Kenneth Caudill wanted to return to Kentucky and purchase a home for his wife and three children. Caudill knew of a home he felt would be perfect for his wife, Jena, and three children, Nathan, Matthew, and Clayton. He had saved some money but not enough for the down payment normally required for a conventional loan.

He learned of USDA Rural Development through Allied Mortgage who, along with a Guaranteed loan from Rural Development, was able to provide a 30 year loan at a fixed rate of interest. Mr. Caudill later said

... "It was the best move my wife and I could have made."



504 Loans and Grants--This homeowner was faced with the choice of going to a nursing home or obtaining repairs for a house that did not have electricity or running water. A very concerned family member made some repairs but was unable to do everything necessary to provide the basic amenities for the elderly woman. Funds provided by USDA Rural Development, combined with partnership funds from the Kentucky Housing Corporation (KHC), were used to construct a bathroom and install electricity, a septic system, insulation, new windows, new siding, a new roof, and central heat and air. This homeowner now has a residence that has all of the basic conveniences to make her life comfortable.



Before



After



Self-Help Grants-Kentucky Rural Initiatives of Providence, KY was awarded a predevelopment grant to develop an application for Mutual Self-Help Housing for families working together to build their own homes. It is anticipated this proposal will consist of approximately 12 families cooperatively providing 65% of the labor for construction of their new homes.

A Technical Assistance Grant (TSA) was awarded to Frontier Housing, Inc. in Morehead to provide technical assistance in developing a comprehensive home-buyer education and counseling program in nine counties. The funds will assist over 200 income-eligible borrowers.





Blackey – House-build in connection with FAHE's 25th Anniversary by HOMES and USDA Rural Development-others in attendance were: Tim Ryan, Acting Deputy Under Secretary; representatives from Senators McConnell and Bunning, and Congressman Rogers offices; State Housing Agencies; Fannie Mae; Local Officials; and nonprofits—representing Partners from West Virginia, Virginia, Tennessee and Kentucky



Lexington – Partnership Event by Community Ventures at the Lexington Legends Baseball Stadium



Lewis County- Event by People's Self-Help Housing to spotlight several partnership loans—in attendance was the representative from Congressman Davis' office



Clay City— House-build with Foothills, CAC, others in attendance were representatives from Senators McConnell and Bunning and local officials



Elkton – Ground Breaking Ceremony with Pennyrile ADD and Congressman Whitfield



Pine Knot – Open House with McCHODO



Bowling Green – Affordable Housing EXPO Homeownership Celebration and Reception also co-hosted by Rural Development Local Office staff in Bowling Green

Multi-Family Housing Programs

Rural Rental Housing Program

funds may be used to build, purchase, or repair apartment-styled rental housing. Rental units are made available to very low, low, and moderate income tenants. Rental housing loans can be made to individuals, associations, trusts, partnerships, limited partnerships, state and local agencies, profit and non-profit organizations. Housing must be located in community designated annually by the agency.

Rural Rental Housing Guaranteed Loan Program funds may be used to build, purchase, and substantially rehabilitate multi-family housing for very low, low, and moderate income tenants. Guarantees may be given to lenders approved by FNMA, FHLMC, FHLB, or HUD.

Farm Labor Housing funds may be used to buy, build, improve, or repair farm labor housing and to provide related facilities for individual farm owners, associations of farmers, broadly based nonprofit organizations. For profit applicants must be unable to obtain credit elsewhere. Grants are available to non-profit organizations. Housing is for domestic farm workers both migrant and year-round.

Housing Preservation Grants provide grant funding to operate a program which finances repairs to single and multi-family housing for very low and low income homeowners. A political subdivision or non-profit corporation may receive and administer HPG funds.

The main challenge for Kentucky's multi-family housing staff is to keep its 454 properties, containing over 12,000 units, viable as the portfolio continues to age in place. This year significant repairs were completed at eight properties and loans were made for two additional rehabilitation projects.



One such property is Bluegrass Apartments I in Glasgow, KY. This 48-unit family complex was built in 1981. After over twenty years of operation, this property showed sign of deterioration and deferred maintenance. This was exacerbated by a decline in occupancy levels that led to cash flow shortages, making repairs even more difficult to accomplish. The Agency discussed possible servicing options with the owner and agreed that a transfer of the property to a new owner having the ability to undertake a rehabilitation of the structures was the best course of action. An interested buyer was located who was able to obtain Low Income Housing Tax Credits through Kentucky Housing Corporation. The sale of these credits helped provide over \$400,000 in needed funding to complete necessary repairs to the property. The Agency also allocated some additional rental subsidies to the property to help stabilize the occupancy rate. The result is a fully rehabilitated property that provides an attractive, affordable housing option for the residents of the Glasgow market area. Occupancy has gone from an average of 73% in 2004 to its current rate of 94%. Tenants who have remained have refurbished units and new residents are easier to attract given the improved condition of the units and the property in general.

Another multi-family program is the Guaranteed Rural Rental Housing Program which provides loan guarantees to lenders willing to finance affordable housing in rural areas. The first complex built under this program in Kentucky was completed in FY 2005. It is located in London, KY and consists of 40 family units. Kentucky Rural Development guaranteed a \$1,000,000 loan made by the Huntington Bank of Columbus, OH, and additional funding was obtained from the sale of Low Income Housing Tax Credits. The units are available to house-holds earning less than sixty percent of the median household income for the area.



The Housing Preservation Grant Program (HPG) provides assistance to nonprofit organizations for programs they established to rehabilitate housing stock in rural areas. Kentucky awarded five HPG grants totaling \$307,239 in FY 2005.

Mary Burpo and her son, Richard, were two beneficiaries of the HPG program through the Purchase Area Housing Corporation, an HPG grantee. The house Mary and Richard owned was in poor condition, so poor Mary decided to move out rather than face a long, cold winter in her present circumstances. The Burpos' learned of Purchase Area's program through the local Chamber of Commerce and applied for assistance. Purchase Area determined the Burpos' house was beyond repair and assisted them with a replacement house designed and constructed by the local vocational school and funded in part with HPG funding.



Rotting wood throughout the house



Mold covered the outside and inside walls

Needless to say, the Burpos' are thrilled and Mary and Richard are anxious to move into their new home as soon as possible. She grinned, "We got work, lots of work," was her comment as she looked at her yard and new home.



The Burpo's hard work paid off—look at the finished product.

BUSINESS - COOPERATIVE PROGRAMS

To promote an active business environment in rural America, the goal of the USDA-Rural Development, Business and Cooperative Programs is "to enhance the quality of life for rural Americans by providing leadership in building competitive businesses including sustainable cooperatives that can prosper in the global marketplace."

Business Programs (BP) works in partnership with the private sector and community-based organizations to provide financial assistance and business planning to fund projects that create or preserve quality jobs and/or promote a clean rural environment. The financial resources are often leveraged with those of other public and private credit source lenders to meet business and credit needs in under-served areas. Business Programs consist of the **Business and Industry Guaranteed Loan, Intermediary Relending Program, Rural Business Enterprise Grant, Rural Economic Development Loan**, and other programs.

Cooperative Programs (CP) promotes the understanding and use of cooperatives as a form of business options for marketing and distributing agricultural products to assist in effectively improving their economic well-being and quality of life. **The Value Added Producer Grant** is a good opportunity to produce farm income.

Although in Fiscal Year 2005 Kentucky did not receive funding authority for every Business Program and Cooperative Program authority, we continue to carry out the mission by administering funds for the betterment of Kentucky's rural residents.



Formed in 1988 in Bowling Green, Kentucky, Trace Die Cast produces customer-specific aluminum components enabling the Corporation to be a 1st-and 2nd-Tier supplier to the automotive industry.

Kentucky Highland Investment Corporation received an Intermediary Relending Program loan to enhance their ability to invest in viable businesses located in, or which will locate in, some of the most remote and economically disadvantaged communities in the nation. This loan continues their mission to stimulate growth and create employment opportunities in Southeastern Kentucky through sound investments and management assistance.

Southeast Kentucky Economic Development Corporation received a Rural Business Enterprise Grant to recapitalize an existing revolving loan fund. The Grantee's first loan will allow for the expansion of Wood Wonders, Inc., a wood manufacturing business in Somerset, Kentucky. Their product lines include framestock for cabinet makers, trim and molding for residential and commercial contractors, including houseboat manufacturers, and custom wood products such as stair treads, mantles, columns and arches.

Kenergy Corp. received a Rural Economic Development Loan to assist a specialty food manufacturer in entering the "Grab and Go" market by using a new technology for pre-cooked pork, beef, turkey, chicken, fish, and shrimp to manufacture fully prepared entrees packed in individual trays and having a shelf life of 45-60 days.

Trace Die Cast, Inc., a manufacturer of aluminum die cast components for the automotive and lawn and garden industries received a Business and Industry Guaranteed Loan to purchase additional equipment and real estate.



Die casting is a process for forming metal components (parts) from molten aluminum.

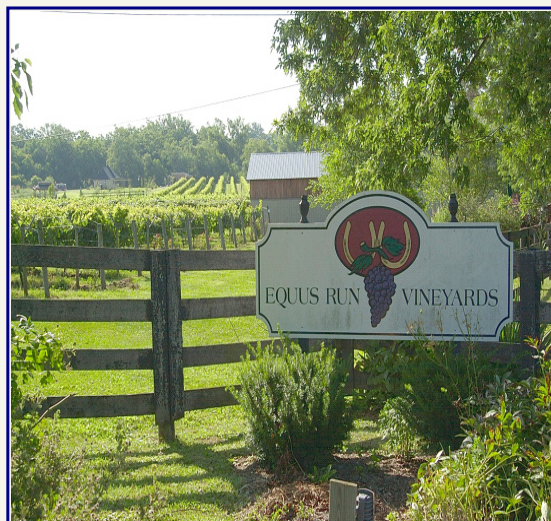


Equus Run Vineyards, LLC was approved for a Value-Added Producer Grant for working capital expenses tied to the development and marketing of a “bag-n-box,” 1.5-liter blush wine product. This new volume and packaging design will be the first of its kind east of the Mississippi.

Formed in the fall of 1997, this 35-acre scenic farm located in Woodford County, Kentucky along majestic horse farms and South Elkhorn Creek was chosen by CNN.com and CNN TV as one of the 16 hidden treasures in the US.

The vineyard’s seven acres annually produces over 22 tons of grapes in varieties which include Cabernet Franc, Chardone, Chardonnay, Merlot, Norton, Riesling and Vidal Blanc.

The vineyard places a major emphasis on tourism and agri-tourism. In 2004, the vineyard completed a 1000 + person outdoor amphitheater and sponsors the “Equus Run Concerts at the Vineyard” series—which combines musical performances with the ambiance of a vineyard setting. The grounds are also used for fundraisers, weddings, group outings, and other activities. The vineyard is open to the public and encourages guests to explore the vineyard and farming operation.



Transformed from a tobacco and cattle farm into a thriving vineyard and tourist destination.



CIVIL RIGHTS

October is National Disability Employment Awareness Month. President Bush believes that America's economic security depends on the talents and skills of our workforce-including workers with disabilities. One of the highlights of National Disability Employment Awareness Month is Disability Mentoring Day (DMD). Three offices participated in Disability Mentoring Day during Fiscal Year 2005. The State Office, London Area Office and Winchester Local Office each served as mentors for one local student. This was an opportunity for the student to job-shadow several employees to determine if their job would be in a field the student would like to pursue in college or as a career.



The month of February is observed as Black History Month. Employees from USDA Farm Service Agency, Rural Development and Natural Resources Conservation Service gathered in observance of Black History Month. The theme of the program was The Niagara Movement.

The Niagara Movement was founded at Niagara Falls in 1905 under the leadership of William De Bois. The group drew up a plan for aggressive action and demanded manhood suffrage, equal economic and educational opportunities, an end to segregation, and full civil rights. The Niagara group virtually came to an end with the establishment of the National Association for the Advancement of Coloured People (NAACP) in 1909.

Pictured are Michele Witt, State Civil Rights Manager; Kenneth Slone, State Director, both from Rural Development; William Cofield, President, Kentucky NAACP; Shayla Watson, Farm Service Agency; and Felicity Weatherspoon, Natural Resources Conservation Service

The State Civil Rights Manager served as a member of the Civil Rights National Office review team, reviewing the Multi-Family Housing Program.

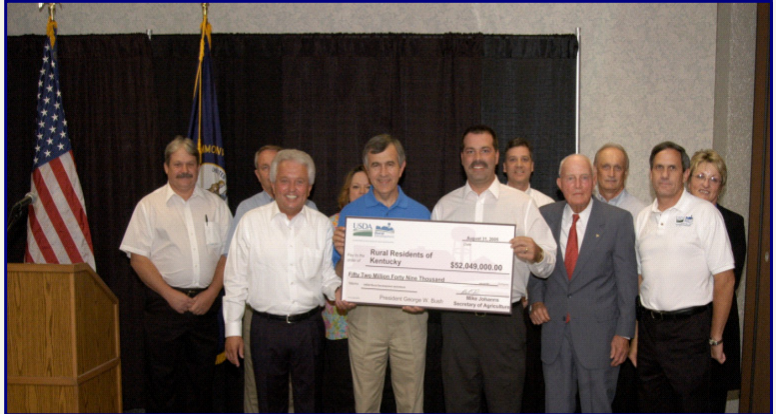
The Management Control Officer outlined the 2006-M Instruction, which Financial Management Division uses as a training tool.

Other activities included: conducting 191 Civil Rights Compliance Reviews; approving 81 Affirmative Fair Housing Marketing Plans; attending 3 Career Days (distributed a recruitment brochure and an employment information packet, both which were developed by the State Office staff); conducting 4 Civil Rights training sessions for employees and management companies involved in the Multi-Family Housing Program; and providing Civil Rights and Management Control training to Rural Development employees during Housing and Community Program Training Meetings.

OUTREACH AND MARKETING

Kentucky employees have been busy with outreach and marketing. Listed are some examples:

- An 18-month calendar was designed featuring USDA Rural Development Success Stories. This calendar is used as a marketing tool during events, meetings, Career Day events, etc.
- Kentucky employees participated in 8 National Homeownership Month events during the month of June. These events ranged from Home Builds (one event was attended by the Acting Deputy Under Secretary and Rural Development employees from 4 states) to Open Houses; 11 Proclamations signings were also conducted by Mayors, County Judge Executives and Rural Development staff.
- 32 Success Stories were submitted to the Under Secretary of Agriculture, published in local newspapers, and have been submitted for posting to our state website. Local newspapers published 87 National Homeownership articles.
- Agriculture Secretary Mike Johanns visited Kentucky to host the Farm Bill Forum, part of the nationwide listening tour to gather input from the public on farm policy. Secretary Johanns presented \$52 million in grant and loan funds to finance construction of a new hospital, construction of electrical distribution lines, provide water service, and offer technical funding to develop a homebuyer assistance program for residents of rural Kentucky.
- USDA donated 96 computer systems (including laptops), 79 monitors and 7 printers to 11 school systems throughout Kentucky. This excess equipment was transferred in accordance with E.O. 12999/ Stevenson-Wyder Technology Act.



**FY 2005
INVESTMENTS IN RURAL KENTUCKY**

<u>Program</u>	<u>Amount Obligated</u>	<u>%Allocated</u>	<u>Number Benefited</u>
Water & Environmental (loan)	25,602,000	100	78,096 users
Water & Environmental (grant)	11,153,600	125	
Electric Coops (10 loans)	270,177,000	No Allocation	
Telecommunications (3 projects)	63,636,400	No Allocation	
Community Facilities (7 loans)	20,175,000	229	166,131 Population
Community Facilities (14 grants)	562,000	122	
502 Direct Housing	38,985,069	183.57	519 families
502 Guaranteed Housing	144,957,029	234.85	1614 families
504 Housing Repair Loans	2,301,899	288.72	430 families
504 Housing Repair Grants	893,756	124.60	185 families
Technical Assistance (TSA) Grant	100,000	No Allocation	200 families
Housing Application Packaging Grants	5,000	No Allocation	10 families
Self-Help Pre-Development Grant	10,000	No Allocation	12 families
515 Rural Rental Housing	345,000	No Allocation	23 units
521 Rental Assistance	9,659,026	No Allocation	979 units
Housing Preservation Grants	307,239	125	38 units
Business & Industry Guaranteed	15,740,000	112	587 jobs
Intermediary Relending Program	1,750,000	No Allocation	490 jobs
Rural Business Enterprise Grants	1,671,241	257	369 jobs
Rural Economic Development Loan	450,000	No Allocation	60 jobs
Value-Added Producer Grant	173,636	No Allocation	27 owners

TOTAL Invested in Rural Kentucky during FY 2005 \$598,995,869

Current Service Areas

Kentucky

***** = State Office

O = Area Offices

X = Local Offices



State Office: 771 Corporate Dr., Suite 200, Lexington, KY 40503 (859) 224-7300

Area & Local Offices:

I---Princeton—320B Traylor St., Princeton, KY 42445 (270) 365-6530

Elkton—101 Elk Fork Road, Elkton, KY 42220 (270) 265-5638 (COUNTIES SERVED -Todd, Logan, Christian, Hopkins, Trigg, Caldwell, Lyon)

Owensboro—3032 Alvey Park Dr West, Ste. 3, Owensboro, KY 42303 (270) 683-0927 (COUNTIES SERVED -Daviess, Hancock, Ohio, McLean, Henderson, Union, Webster, Muhlenberg, Crittenden)

Paducah—2715 Olivet Church Road, Paducah, KY 42001 (270) 554-7265 (COUNTIES SERVED -McCracken, Ballard, Graves, Carlisle, Hickman, Fulton, Livingston, Calloway, Marshall)

II-Columbia—957 Campbellsville Rd., Columbia, KY 42728 (270) 384-6431

Bardstown—201 Buchanan Blvd, Bardstown, KY 40004 (502) 348-3024 (COUNTIES SERVED -Nelson, Marion, Washington, Spencer, Jefferson, Bullitt, Taylor)

Bowling Green—925 Lovers Lane, Bowling Green, KY 42103 (270) 842-1146 (COUNTIES SERVED -Warren, Allen, Barren, Edmonson, Simpson, Butler)

Columbia—969 Campbellsville Road, Columbia, KY 42728 (270) 384-6431 (COUNTIES SERVED -Adair, Casey, Green, Metcalfe, Monroe, Russell, Cumberland)

Elizabethtown—587 Westport Road, Elizabethtown, KY 42701 (270) 769-1555 (COUNTIES SERVED -Hardin, Hart, Larue, Meade, Grayson, Breckinridge)

III-Shelbyville—90 Howard Drive, Suite 3, Shelbyville, KY 40065 (502) 633-3294

New Castle—1125 Campbellsburg Rd., New Castle, KY 40050 (502) 845-4700 (COUNTIES SERVED -Henry, Franklin, Shelby, Oldham, Trimble, Carroll)

Nicholasville—800-A South Main, Nicholasville, KY 40356 (859) 887-2461 (COUNTIES SERVED -Jessamine, Anderson, Woodford, Mercer, Boyle)

Williamstown—486 Helton Street, Williamstown, KY 41097 (859) 824-7171 (COUNTIES SERVED -Grant, Owen, Gallatin, Boone, Kenton, Harrison, Scott)

Winchester—30 Taylor Ave., Winchester, KY 40391 (859) 744-5561 (COUNTIES SERVED -Clark, Montgomery, Bourbon, Fayette, Powell)

IV-Morehead—220 West First Street, Morehead, KY 40351 (606) 784-6447

Flemingsburg—Hwy 11 So., 33 Meadow Lane, Flemingsburg, KY 41041 (606) 845-2851 (COUNTIES SERVED -Fleming, Nicholas, Rowan, Robertson, Bath, Mason, Lewis, Campbell, Pendleton, Bracken)

Grayson—526 East Main Street, Suite A, Grayson, KY 41143 (606) 474-5185 (COUNTIES SERVED -Carter, Greenup, Boyd, Elliott, Lawrence)

Prestonsburg—128 Shoppers Path, Prestonsburg, KY 41653 (606) 886-9545 (COUNTIES SERVED -Floyd, Pike, Martin, Johnson)

West Liberty—955 Prestonsburg St, Suite 1., West, Liberty, KY 41472 (606) 743-3193 (COUNTIES SERVED -Morgan, Magoffin, Menifee, Wolfe, Lee, Breathitt, Owsley)

V--London—95 S. Laurel Rd., Suite #A, London, KY 40744 (606) 864-2172

Hazard—625 Memorial Drive, Suite 101, Hazard, KY 41701 (606) 439-1378 (COUNTIES SERVED -Perry, Leslie, Letcher, Harlan, Knott)

London—95 S. Laurel Rd., Suite #B, London, KY 40744 (606) 864-2172 (COUNTIES SERVED -Laurel, Clay, Knox, Bell, Whitley)

Richmond—2150 Lexington Road, Suite C, Richmond, KY 40475 (859) 624-1982 (COUNTIES SERVED -Madison, Estill, Jackson, Garrard, Rockcastle)

Somerset—45 Eagle Creek Dr, Ste 105, Somerset, KY 42503 (606) 678-4842 (COUNTIES SERVED -Pulaski, McCreary, Clinton, Lincoln, Wayne)